

April 30, 2002

J. Michael Carey
City Clerk of the City of Los Angeles
200 N. Main St., Room 360
Los Angeles, CA 90012

Dear Mr. Carey:

PROPOSED CITY CENTER REDEVELOPMENT PROJECT

Pursuant to Health and Safety Code Section 33362, the County of Los Angeles hereby submits its Statement of Objections to the proposed City Center Redevelopment Project. The County is objecting to the project for two reasons. First, a majority of the project area is proposed to be detached from the existing Central Business District (CBD) Project. The County believes the detachment of parcels from the CBD Project, and the inclusion of those parcels in the new City Center Project is in violation of the court-imposed stipulated judgment regarding the lifetime cap.

Second, the proposed project includes approximately 30 acres of parking lots adjacent to Staples Center. The County believes that these parcels are not blighted. According to Community Redevelopment Law, non-blighted parcels may be included in a project only if the inclusion is necessary for the effective redevelopment of the entire project area, and not for the purpose of collecting tax increment. Based on a study commissioned by the County, and a review of available pertinent research materials, the County believes the Sports and Entertainment District Project, proposed for construction on the 30 acres of existing parking lots, is not necessary for the effective redevelopment of the City Center Project area.

Attached is a report addressing the objections to the proposed Project. Pursuant to Health and Safety Code Section 33363, the County respectfully requests your legislative body's written response to our written objections. If you have any questions regarding this submission, please call Robert Moran of this office at (213) 974-1130.

Sincerely,

DAVID E. JANSSEN
Chief Administrative Officer

DEJ:LS
MKZ:RM:nl

Attachment

c: Each Supervisor
County Counsel
Auditor-Controller
Jerry A. Scharlin, Administrator, Community Redevelopment
Agency of the City of Los Angeles

STATEMENT OF OBJECTIONS

TO

THE PROPOSED CITY CENTER REDEVELOPMENT PROJECT

BY

THE COUNTY OF LOS ANGELES

April, 2002

EXECUTIVE SUMMARY

The Community Redevelopment Agency of the City of Los Angeles is proposing to adopt the City Center Redevelopment Project on May 1, 2002. The City Center Project is approximately 879 acres, and includes the Historic Downtown, South Park, and City Markets areas of Downtown Los Angeles. Based on a cursory examination, the County believes that a majority of the proposed project area generally reflects blighting conditions consistent with legal requirements.

However, the County of Los Angeles is objecting to the adoption of the proposed project on two grounds. First, a majority of the proposed project area is proposed to be detached from the existing Central Business District (CBD) Project. By detaching parcels from the CBD Project, and including them in a new redevelopment project, the Agency is violating the court-imposed project cap on the CBD Project.

Second, the Agency has included approximately 30 acres of surface parking lots adjacent to Staples Center in the proposed project area. Since the parking lots are not blighted, it is implied that the Agency is including the lots under Section 33321 of the California Health and Safety Code, which allows for the inclusion of non-blighted parcels in a project area if the inclusion of those parcels is found to be necessary for the effective redevelopment of the entire project area, and not included for the purpose of obtaining tax increment revenue.

However, the location of the parking lots, adjacent to Staples Center (see Attachment #1), has been reported as the intended site of the Los Angeles Sports and Entertainment District Project, a \$1 billion urban entertainment and retail complex. The project will include a major convention hotel of 1,200 rooms; a second 600-room hotel; 1.1 million square feet of retail, entertainment, and restaurant uses; a 7,000 seat live theater, 800 residential units; 300,000 square feet of office space; up to 5,305 parking spaces, and a potential expansion of the Los Angeles Convention Center (LACC).

It is the County's contention that the current surface parking lots are not blighted, the inclusion of the proposed Sports and Entertainment District Project is not necessary for the future redevelopment of the City Center Project Area, and that the primary purpose for the inclusion of the Sports and Entertainment District in the proposed redevelopment project is to obtain tax increment revenue to fund a public subsidy for the construction of the convention center hotel.

Specifically, study performed by the Sedway Group for the County, other consultant studies, and independent research indicate the following:

- The Agency's 1992 and 1999 feasibility studies did not account for competition, national convention space growth rates, or interest in the City of Los Angeles as a convention venue, but merely assumed that the construction of a convention center hotel would fill the underutilized LACC with thousands of new attendees;
- The supply of convention center space has been growing at unprecedented levels;
- Even prior to September 11th, the economic slowdown had dampened the demand for conventions and tradeshow;
- The market position of the LACC is unclear, especially given the strong position of its primary competitors;
- The ability of the proposed Sports and Entertainment District Project to attract tourists and residents to Downtown Los Angeles has not been thoroughly analyzed and based upon research for other areas is uncertain at best;
- Case study analyses provide few examples of significant economic catalytic effects from a convention center complex on surrounding neighborhoods;
- Sports arenas, such as the adjacent Staples Center, have a poor record as economic catalysts;
- Serious environmental issues were raised during the Sports and Entertainment District Project's environmental review process;
- The revitalization of Downtown Los Angeles is underway, with numerous projects completed and others scheduled;
- Many urban theorists believe that master-planned, large-scale developments do not revitalize cities, and alternative models have been more successful in revitalizing other cities;
- The need for a public subsidy for the convention center hotel is well documented;
- And there are alternatives to tax increment financing that can provide the public subsidy for the convention center hotel.

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LIST OF ATTACHMENTS

Attachment #1	Agency Preliminary Report, Exhibit 1 Parcel Map, parking lots identified
Attachment #2	Agency Preliminary Report, Exhibit 2 Map of physical blight
Attachment #3	Agency Preliminary Report, Exhibit 15 Map of irregular parcels
Attachment #4	Agency Preliminary Report, Exhibit 1 Parcel Map
Attachment #5	Agency Preliminary Report, Exhibit 16 Map of underutilized parcels
Attachment #6	1992 ERA Feasibility Study, Table 5 The Image Profile of Los Angeles as a Convention Center
Attachment #7	Coalition LA letter February 19, 2001
Attachment #8	Photographs of areas adjacent to Staples Center
Attachment #9	Sedway Group Study

Legality of Establishing a New CBD Redevelopment Project

In an attempt to get around a spending cap on downtown redevelopment and coax developers to pursue new projects, the L.A. Community Redevelopment Agency has proposed splitting much of the current downtown redevelopment project area into two new zones.

Los Angeles Business Journal, December 3, 2001

The Agency's proposed formation of new project areas is in violation of a court-imposed agreement and the Community Redevelopment Law. In a stipulated judgment, entered by the Los Angeles Superior Court on November 22, 1977, the Agency and the City Council of Los Angeles, among others, agreed and became bound by Order of the Court to certain limitations, controls and criteria for the implementation of the Redevelopment Plan for that portion of property comprising the Central Business District Redevelopment Project Area (the "CBD Project"). In an effort to circumvent the limitations and controls set forth in that stipulated judgment, including the tax increment spending lifetime cap, the Agency has dissected the CBD Project to create new proposed redevelopment projects. By ignoring the mandates provided in the court-imposed stipulated judgment, the Agency has abused its discretion and has attempted to usurp powers that in this context belong only to the judiciary. In fact, the Court of Appeal¹ has previously rejected the Agency's attempt to circumvent the tax increment spending limitation that is part of the stipulated judgment.

¹ Bernardi v. City Council of Los Angeles, 54 Cal. App. 3d, 426 (1997)

Statutory Requirements of Blight

California Community Redevelopment Law, Health and Safety Code Section 33030 characterizes a blighted area as follows:

An area that is predominantly urbanized, as that term is defined in Section 33320.1, and is an area in which the combination of conditions set forth in Section 33031 is so prevalent and so substantial that it causes a reduction of, or lack of, proper utilization of the area to such an extent that it constitutes a serious physical and economic burden on the community which cannot reasonably be expected to be reversed or alleviated by private enterprise or governmental action, or both, without redevelopment.

Section 33031 (a) describes physical conditions that cause blight as:

(1) Buildings in which it is unsafe or unhealthy for persons to live or work. These conditions can be caused by serious building code violations, dilapidation and deterioration, defective design or physical construction, faulty or inadequate utilities, or other similar factors.

(2) Factors that prevent or substantially hinder the economically viable use or capacity of buildings or lots. This condition can be caused by a substandard design, inadequate size given present standards and market conditions, lack of parking, or other similar factors.

(3) Adjacent or nearby uses that are incompatible with each other and which prevent the economic development of those parcels or other portions of the project area.

(4) The existence of subdivided lots of irregular form and shape and inadequate size for proper usefulness and development that are in multiple ownership.

Section 33031(b) describes economic conditions that cause blight as:

(1) Depreciated or stagnant property values or impaired investments, including, but not necessarily limited to, those properties containing hazardous wastes that require the use of agency authority as specified in Article 12.5 (commencing with Section 33459).

(2) Abnormally high business vacancies, abnormally low lease rates, high turnover rates, abandoned buildings, or excessive vacant lots within an area developed for urban use and served by utilities.

(3) A lack of necessary commercial facilities that are normally found in neighborhoods, including grocery stores, drug stores, and banks and other lending institutions.

(4) Residential overcrowding or an excess of bars, liquor stores, or other businesses that cater exclusively to adults, that has led to problems of public safety and welfare.

(5) A high crime rate that constitutes a serious threat to the public safety and welfare.

Agency Blight Findings in the Project Area

According to the March 20, 2002 Preliminary Report, the Agency has characterized the parking lots adjacent to Staples Center as blighted. According to Exhibit 2 in the Agency's Preliminary Report (Attachment #2) a majority of these areas are identified as exhibiting one or more conditions of physical blight. The Agency does not explain which factors of physical blight are exhibited by functioning, surface parking lots. These parking lots were recently constructed to serve Staples Center, and they are in excellent condition, as the photographs on the following page demonstrate.



Figueroa St. & Olympic Blvd. facing west



Olympic Blvd. & Georgia St. facing east



Flower St. & 12th St. facing north

Exhibit 15 of the Agency's Preliminary Report (Attachment #3) identifies certain parcels south of Olympic and west of Figueroa as odd shaped and inadequately sized. This parcel map is inaccurate. The correct parcel identification can be found on Exhibit 1 (Attachment #4). According to the Los Angeles County Assessor, the two large parcels to the west of Figueroa and south of Olympic Boulevard are owned by the Agency. Therefore, the need to acquire parcels in multiple ownership typical of redevelopment projects is not present in this case.

Exhibit 16 (Attachment #5) identifies a number of the parking lots as presently developed but underutilized. Due to their proximity to Staples Center (home to professional sports teams, concerts, and special events) and the LACC, the parking lots appear to be highly utilized. Thus, it appears the Agency's claim that the parking lots are underutilized is in comparison to other uses, not in their present use as parking lots.

The County believes such a characterization is not consistent with Community Redevelopment Law, or prior Court decisions. In *Sweetwater Valley Civic Assn. v. City of National City*², the Court ruled that it is not sufficient to merely show that the area is not being put to its optimum use, or that the land is more valuable for other uses:

[t]he Supreme Court has cautioned that "public agencies and courts both should be chary of the use of the redevelopment act unless, ... there is a situation where the blight is such that it constitutes a real hindrance to the development of the city and cannot be eliminated or improved without public assistance. It never can be used just because the public agency considers that it can make a better use or planning of an area than its present use or plan."

Also, from *Beach-Courchese v. City of Diamond Bar*³:

Thus, the concededly desirable goal of improving an area is "insufficient by itself to justify use of the extraordinary powers of community redevelopment."

² *Sweetwater Valley Civic Assn. v. City of National City* (1976) 18 Cal. 3d 270, 278

³ *Beach-Courchese v. City of Diamond Bar* (2000) 80 Cal. App 4th, 388, 395

Necessary for Effective Redevelopment

California Health and Safety Code Section 33321:

A project area need not be restricted to buildings, improvements, or lands which are detrimental or inimical to the public health, safety, or welfare, but may consist of an area in which such conditions predominate and injuriously affect the entire area. A project area may include lands, buildings, or improvements which are not detrimental to the public health, safety or welfare, but whose inclusion is found necessary for the effective redevelopment of the area of which they are a part. Each such area included under this section shall be necessary for the effective redevelopment and shall not be included for the purpose of obtaining the allocation of tax increment revenue from such area pursuant to Section 33670 without other substantial justification for its inclusion.

The Court ruled in *Gonzales v. Santa Ana*⁴ that there be some specific connection between the inclusion of non-blighted parcels and the effective redevelopment of an area. The County opines the Agency has not demonstrated that the inclusion of the proposed Sports and Entertainment District is necessary for the effective redevelopment of the remainder of the City Center Project Area.

Los Angeles Convention Center Background

In 1983, the City of Los Angeles contracted with Touche Ross & Company to study the feasibility of expanding the then 330,000-square foot LACC. Based on the Touche Ross study, LACC officials estimated that the expansion would increase attendance from 1.475 million attendees and 123 events in 1984-85 to 3.7 million attendees and 270 events within three years of completion. Mayor Tom Bradley appointed a Blue Ribbon Committee to determine the financing of the expansion project. The conclusion of the Committee was that the expansion should be financed with \$350 million in revenue bonds backed by an increase in the local hotel occupancy tax.

Ultimately, the expansion was completed in 1993 at cost of \$500 million, which requires significant annual debt payments. The growth in attendance has not come close to meeting the initial projections. Actual attendance for 1994-95 was 1.3 million at 129 events, and 1.83 million (including 400,000 who attended a Smithsonian traveling exhibit) at 121 events in 1995-96. Instead of doubling attendance as predicted in the feasibility study, actual attendance has remained at pre-expansion levels. The result to the City of Los Angeles is the need to use general revenue funds to cover LACC bond payments and operating deficits.

⁴ Robert P. Gonzales et al., v. City of Santa Ana et al. (1993) 12 Cal. App. 4th 1335

Explanations for the poor performance of the LACC include a lack of adjacent facilities, competition from other venues, an inflexible rental discount policy, and a slowing economy. According to a September 2001 audit of the LACC performed by the City of Los Angeles Controller⁵, there are a number of issues that have contributed to LACC's disappointing performance. The Controller cited these issues, and provided recommendations:

- The Blue Ribbon Committee's report on the feasibility of expansion was based on a one-dimensional revenue scenario. The Controller recommends the City: "Include a variety of best and worst case scenarios in reports on feasibility studies used for future Convention Center investments."
- There was no comprehensive study done to measure the overall economic impact of the LACC, therefore the City should: "Ensure that an annual independent study is completed to measure the Convention Center's total economic impact on the City, market share and competitive position."
- Implement a comprehensive event-discounting policy and department- wide tracking of discounts given.
- Improve collection of delinquent accounts and renegotiate parking fee agreements with Staples Center.

The Agency's feasibility studies assume that the construction of a headquarters hotel adjacent to the LACC will boost convention attendance, and the spending by these attendees will have a significant economic impact on Downtown Los Angeles. However, available data suggests significant increases in the supply of convention center space, a leveling off of demand given current market conditions, and an intense competition for convention and tradeshow business. Therefore, consistent with the City Controller's recommendations, the assumption that simply building a convention center hotel will significantly increase LACC attendance should be carefully analyzed.

1992 Feasibility Study

⁵ City of Los Angeles Office of the Controller, Analysis of Major Convention Center Revenue Activities, City Controller Laura Chick, Sept. 26, 2001

In November 1992 the Convention Center Area Task Force issued a report on the Convention Center Expansion Project. Included in the Report was a May 1992 Evaluation of Convention Center Flagship Hotel on Convention Center Booking Activity completed by Economics Research Associates (ERA). ERA identified the lack of hotel rooms within five blocks of the LACC as a competitive disadvantage compared to its rivals.

<u>Convention Center</u> Los Angeles	<u>Hotel Rooms</u> <u>Within 5 Blocks</u> 897 ⁶
Anaheim	5,623
Las Vegas	15,540
San Diego	4,730
San Francisco	8,781

The ERA Report estimated the loss of LACC bookings due “primarily” to the absence of a convention center hotel at 151,000 room-nights per year. They then estimated annual incremental increases in convention center bookings of 19 events, 265,000 attendees, and 335,230 room-nights resulting from the development of a flagship convention center hotel. According to a survey of meeting planners (Table 5 of the ERA Report, Attachment #6), the LACC had a poor ranking in terms of Adequate Number of Hotel Rooms Available and Close to Hotels. However, the survey included sixteen additional attributes including Facility Rental Rates, Facility Availability, Competent Management, and Convenience to Airport. No explanation is given as to why convention planners would base their decision to choose Los Angeles over other cities based solely on the presence of a new flagship hotel.

1999 Feasibility Study

In February 1999, PKF Consulting issued the Study of the Potential Market Demand, Statements of Estimated Annual Operating Results, and Evaluation of Economic Feasibility for a Proposed Convention Center Hotel for the Community Redevelopment Agency of the City of Los Angeles. The report states that over a three-year period, 70 groups comprising approximately 1,000,000 room nights did not choose Los Angeles as a convention site due to the lack of a convention headquarters hotel adjacent to the LACC. Like the ERA Report, the PKF Study concludes that the addition of a new headquarters hotel would capture unsatisfied convention demand created by the lack of a headquarters hotel.

⁶ The addition of 1,800 rooms (subsidized by \$100 million subsidy) would still leave the LACC well below its competitors in terms of the number of nearby hotel rooms.

"The consensus is that the creation of a Convention Center hotel would alleviate much of this problem."⁷

No analysis is provided to explain what this "consensus" is based on. The Study's "Market Analysis" provides a survey of the competitive supply of hotel rooms in the Downtown Los Angeles market. Again, no explanation is given, or market study performed, indicating why conventions now lost to competitors would choose Los Angeles with the addition of 1,200 to 1,800 headquarters hotel rooms. Rather, the following paragraph summarizes the Study's general conclusion:

As presented earlier in this section, the number of overnight visitors and visitor expenditures continued to grow in four of the past five years, though at slowing rates. Passenger counts at area airports reached an all-time high in 1998 and are expected to continue increasing. The subject's neighborhood has received much of the revitalization needed in the downtown area, which should continue to benefit from the completed Los Angeles Convention Center and the completed construction of the mass transit system. The Staples Arena and the Walt Disney Concert Hall, as well as the continued attention by planning officials and development agencies, should encourage growth among tourists, office and retail establishments, all of which will increase demand for hotel rooms in the neighborhood. Thus, from the standpoint of tourism as well as the overall economy, the outlook is for modest growth over the next few years.⁸

Convention Center Supply

Throughout North America, over 96 new or expanded convention centers and exhibition halls are either planned or under construction. As of 2000, there was a total of 65.5 million square feet of exhibit space with 379 venues throughout the U.S. and Canada⁹. Furthermore, according to Tradeshow Week, the amount of exhibition space in North America has increased 25 percent in the last ten years and is expected to increase another 25 percent over the next ten years. New convention centers are now being constructed in Boston, Pittsburgh, Las Vegas, and Washington DC.

This explosive growth is largely attributed to municipalities desire to attract meeting and tradeshow delegates, and the response to more space in one city appears to be expansions and new centers in every other city. Each city produces feasibility studies

⁷ Study of the Potential Market Demand, Statements of Estimated Annual Operating Results, and Evaluation of Economic Feasibility for a Proposed Convention Center Hotel, PKF Consulting, Feb. 1999, pg. III-10

⁸ Study of the Potential Market Demand, Statements of Estimated Annual Operating Results, and Evaluation of Economic Feasibility for a Proposed Convention Center Hotel, PKF Consulting, Feb. 1999, pg. III-12

⁹ Tradeshow Week Major Exhibit Hall Directory, 2000 edition

that recommend new construction based on the assumption that the convention and tradeshow business will inevitably grow. A summary of Strategic Advisory Group (SAG) studies found on the SAG website demonstrates this phenomenon:

Orlando/Orange County Convention Center

...The six-month process yielded a confident statement that Orlando and the OCCC could be a dominant industry player and should triple the size of the center to 3+ million square feet of exhibit space.

San Jose McEnery Convention Center

...The recommendation was for a larger convention center and separate conference center.

Albany Convention Center

...The study recommended construction of a new facility as described above, as well as a master plan to double that amount of space in the future if warranted.

Irving Convention Center and 450-room Headquarter Hotel

...The conclusions of the study recommended that Irving could support a convention center to compete for medium-sized conventions as Austin and San Antonio expand and the new Opryland Texas opens.

Columbia Convention Center and 250-room Headquarter Hotel

...Interviews with potential target groups indicated that interest was strong for a center in Columbia and that a headquarter hotel would be an important success factor.

Shreveport Convention Center and 250-room Headquarter Hotel

...Based on user surveys and other needs in the community, the study recommended the two-phased development of a convention center and attached headquarter hotel.

Wilmington Convention Center and 250-room Headquarter Hotel

...the study recommended the two-phased development of a convention center and headquarter hotel complex.

Convention centers planning expansions include:

	<u>Existing Exhibition Space (sq. ft.)</u>	<u>Planned Expansion</u>
Chicago	2,200,000	2,800,000

Philadelphia	502,000	747,000
Atlanta	950,000	1,370,000
New Orleans	1,100,000	1,600,000
Dallas	815,852	1,000,000
Houston	451,000	855,000
Denver	300,000	1,000,000

Convention and Tradeshow Demand

While the supply of convention center space is increasing at a rapid rate, the market demand for conventions and tradeshows has stabilized. The economic slowdown has had a significant effect on corporate profits, and corporate travel budgets have been reduced. A recent report by Anderson Consulting¹⁰ described the current outlook for the hospitality sector as follows:

The industry has had to contend with nationwide cutbacks in corporate travel, canceled conventions, declining consumer confidence, sharp downturns in air travel, corporate restructurings, employee layoffs, capital spending deferrals and defaulting loan covenants. Hardly business as usual. One of the greatest challenges for our industry, therefore, is the uncertainty of the short- and medium-term future.

The current question is how and when will recovery begin? In the wake of Sept. 11 and the slowdown in the U.S. economy that was already well underway before the terrorist attacks, the hospitality sector has seen a sharp decline in both occupancy and pricing. This has affected both the short- and medium-term outlook for many hotel owners, investors, lenders and hospitality companies. All of these interests are re-assessing their relationships and the prospects for a turnaround.

According to Michael Hughes, *Tradeshow Week's* director of research:

... the slowing economy was already taking a toll on the trade show business, with attendees and exhibitors both down 1% in the first half of the year compared with 2000. Now, he anticipates overall attendance to be 10% lower than last year. With corporate travel budgets tightening and the economy probably heading into a recession, he said, the biggest winners probably will be large, established trade shows recognized as must-attend events for their industries. He said the biggest losers probably will be second- and third-tier events, as well as technology seminars and conferences, which took a dive when the tech bubble burst.

¹⁰ Hospitality and Leisure Executive Report, Anderson, Winter/Spring 2002

*'The market is going to gravitate toward the shows with the most value,' Hughes said, 'The No. 2 and No. 3 players are at risk.'*¹¹

The total number of conventions identified each year in Tradeshow Week's annual Data Book illustrates the flat market for conventions. Since 1994, total U.S. conventions have ranged from a low of 4,295 in 1998 to 4,637 in 2000. Data Book estimated a total of 4,333 for 2001. A recent article in the March 26, 2002 Boston Globe describes the difficulties faced by cities when attendance estimates fall short:

The report from PricewaterhouseCoopers, a draft of which was obtained by the Globe, states that after a five- to seven-year ramp-up period, 'the new Boston Convention and Exhibition Center should achieve occupancy in the range of 35 to 40 percent and an annual attendance of 360,000 to 410,000.' But critics say that five years ago, when proponents were urging lawmakers to fund the project, the backers estimated annual attendance would reach 470,600 within five years of its opening. If PricewaterhouseCoopers is correct, attendance could be as much as 25 percent lower than originally forecast... The report was paid for by the visitors bureau and the Massachusetts Lodging Association. It was intended to evaluate changes in the convention industry marketplace due to the softening economy and increased competition spawned by the recent boom in the construction of convention centers across the country.

Convention Center Destination Appeal

The Agency's Preliminary Report and feasibility studies provided no analysis as to Los Angeles' competitive position as a convention destination. In the highly competitive convention center market, destination appeal is critical to meeting planners when selecting convention and tradeshow destinations. According to SAG:

*Each year we survey hundreds of meeting planners to discern the needs, attitudes, and changing trends of large and small groups. What we've learned is that with few exceptions meeting planners go through a three-step process when evaluating potential sites. Is the destination appealing? Can the convention facility adequately meet the space needs? Will the available hotel package be convenient for the attendees?*¹²

According to a Metropoll Selection Criteria Survey, as reported in an ERA Issue Paper, meeting executives were asked to rate the importance of different criteria when selecting a convention city. Once a meeting planner determines that the convention

¹¹ Los Angeles Times, Cancellations Pummel Convention Industry, Charles Ornstein and Marla Dickerson, Sept. 25, 2001

¹² Strategic Advisory Group website, Public-Private Partnership Newsletter Vol. 1

facility could handle their event, the evaluation hinges on factors in the order of importance as follows (percent rating criteria “very important”)¹³:

<i>Food and Lodging Costs</i>	<i>78%</i>
<i>Convenient Airline Service</i>	<i>73%</i>
<i>Travel Costs</i>	<i>72%</i>
<i>No. of Hotel Rooms Avail.</i>	<i>67%</i>
<i>Security/Crime Rate</i>	<i>53%</i>
<i>Clean Attractive City</i>	<i>51%</i>
<i>Attractiveness of Convention Center</i>	<i>33%</i>

Similar to the ERA findings included in the 1992 Feasibility Study, convention planners base their decision to locate a convention in a particular city on a number of factors. The 1999 Feasibility Study does not mention other selection factors, as it assumes the new hotel will attract new convention business. The SAG Newsletter further stresses the importance of destination appeal:

Although destination appeal is a critical test a city must pass, it is unfortunately the most difficult and time consuming to change. Our research shows that if the appeal does not exist, a larger convention center and/or a headquarter hotel does not materially change the perception of the destination in the meeting planner's mind.

LACC Competitive Position

In the coming years competition for the largest tradeshow will be fierce, as resort cities such as Las Vegas and Orlando offer massive convention centers, nearby attractions, and vast amounts of inexpensive accommodations. In addition to competing for conventions with cities throughout the United States, the LACC competes for convention and tradeshow business within California with the Cities of Anaheim, San Diego, and San Francisco. Executive Vice President of the Los Angeles Convention and Visitors Bureau Michael Collins described the market as follows, “The fight to land big conventions is a ‘zero sum game,’ because there are only about 500 premier meetings annually. For a city to gain, it has to come out of someone else’s hide.”¹⁴ Because all three competitors are well positioned in the convention and lodging industries, the lack of a detailed market analysis makes it difficult to determine the ability of LACC to capture a greater portion of convention and tradeshow business.

The following are summaries of the current lodging markets in each city, according to the 2002 Ernst & Young California Lodging Forecast:

¹³ Economics Research Associates, Economic Impact of Convention and Conference Centers, Steven E. Spickard, January 1996

¹⁴ Los Angeles Times, Revitalized Anaheim Worries LA Officials, Jerry Hirsch, Dec. 17 2000

Anaheim

Orange County's renovated convention center, Disney's expansion efforts, and the completion of the \$1.1 billion Interstate 5 North Improvement Project should play a key role in inducing additional lodging demand to the area and enhance Orange County's lodging appeal as a multi-day destination. The renovated 1.6-million-square-foot Anaheim Convention center is helping position Orange County as an attractive meeting and convention destination in southern California and is helping attract drive-in demand from surrounding cities.

San Diego

Due to San Diego's well-diversified economic base, recently expanded convention center, limited additions to supply, and proximity to major California markets, the local lodging market is well positioned and is anticipated to outperform other major lodging markets in the nation in 2002. Lodging demand is expected to remain strong in 2002 and is anticipated to benefit significantly from the recently completed and expanded convention center.

San Francisco

Several development initiatives, however, are anticipated to contribute to San Francisco's unique value proposition and induce lodging demand. The Moscone Convention center's 750,000 square-foot expansion is anticipated to be completed by 2003 ...

Los Angeles Area Tourist Destinations

Should more convention attendees be attracted to Los Angeles, and if they decide to venture beyond the walls of the Sports and Entertainment District, where will they go? A survey of overnight visitors included in the 1999 PKF Study answers this question by listing the top 20 Los Angeles regional attractions:

- | | |
|---------------------------|--------------------------------------|
| 1. Universal Studios | 11. Queen Mary |
| 2. Disneyland | 12. Star Homes |
| 3. Hollywood Walk of Fame | 13. Magic Mountain |
| 4. Rodeo Drive | 14. Will Rogers Beach |
| 5. Venice Beach | 15. Old Town Pasadena |
| 6. Chinese Theatre | 16. Farmer's Market |
| 7. Sunset Boulevard | 17. 3 rd Street Promenade |
| 8. Santa Monica Pier | 18. Griffith Park |
| 9. Knott's Berry Farm | 19. San Pedro Ports O'Call |
| 10. Marina del Rey | 20. Beverly Center |

The construction of Disney Hall, Staples Center, the new Cathedral, and other projects, is hoped to attract more visitors to Downtown Los Angeles. However, as the above list indicates, Downtown Los Angeles is not currently a popular visitor destination. Furthermore, the number two attraction of overnight visitors to Los Angeles is Disneyland, an attraction that greatly benefits the Anaheim Convention Center, a primary competitor of the LACC.

Retail Destinations

The Sports and Entertainment District Project has been described as a major urban entertainment center and mixed-use development, which will act as a destination for tourists and area residents. A session at the recent 9th Annual International Urban Land Institute Conference described the risk involved with these projects:

We Can Build It, But Will They Come?

*Although entertainment has become a critical component of both public destinations and private retail projects, in reality, many of these retail entertainment developments have a spotty history of success. What are we missing here?*¹⁵

As a regional shopping and entertainment center, it will compete with other new centers, also designed as unique shopping and entertainment experiences. Existing entertainment retail projects in the area include Hollywood and Highland in Hollywood, Paseo Colorado in Pasadena, the Grove at Farmers Market, Westlake Promenade, Universal CityWalk, and Triangle Square at Costa Mesa. In addition, the Sunset Millennium and West Hollywood Gateway projects will soon open in West Hollywood. Will Los Angeles area consumers be willing to travel to Downtown Los Angeles when they can experience similar entertainment retail centers closer to home? The drive to Downtown Los Angeles is already daunting, especially if there is a sporting event or concert at Staples Center.

Convention Centers as Economic Catalysts

Cities subsidize convention center projects in hopes of attracting out-of-town consumers to spend dollars in their city. The preference of out-of-town consumers to local consumers is because spending by local residents is not new funds coming into the local economy, but rather a shift from other local spending venues. However, one needs to ask how much out-of-town attendee spending will end up in the local economy, and how much of this spending will multiply or ripple through the local economy.

¹⁵ Developing Retail and Entertainment Destinations, Regaining the Momentum, 9th Annual International ULI Conference, March 25-26, 2002, New York

The calculation of direct and indirect spending by convention attendees can be substantially impacted by the assumptions made in the feasibility studies. Especially influential is the assumption of room-nights generated by convention attendees. In San Francisco, the Moscone Convention Center hosted 628,564 attendees in fiscal 1996, generating 655,000 hotel room-nights, or a ratio of 1.042 to 1¹⁶. Therefore, any assumption using a ratio of greater than 1.042 to 1 would significantly inflate attendee spending.

Economist William J. Hunter analyzed the use of multipliers in economic development analysis:

*Particularly distressing are recent appeals to multiplier theory in an attempt to justify government subsidization of private businesses. Multipliers overstate the economic benefits of private businesses like sports stadiums and arts organizations, and taxpayers rarely realize all the benefits promised by multiplier-based economic impact studies. By relying on multiplier analysis to evaluate the viability of a private business, government officials are encouraged to make high-risk 'investments' with taxpayers' money. The potential for significant harm is evident.*¹⁷

The following chart prepared for the Convention Liaison Council (CLC)¹⁸ analyzes the direct spending patterns of attendees:

<i>Hotel</i>	<i>33%</i>
<i>Air Transportation</i>	<i>23%</i>
<i>Restaurants</i>	<i>12%</i>
<i>Ground Transportation</i>	<i>9%</i>
<i>Retail Trade</i>	<i>7%</i>
<i>Business Services</i>	<i>7%</i>
<i>Entertainment</i>	<i>5%</i>
<i>Other</i>	<i>4%</i>

The Sports and Entertainment District Project proposal includes a convention center hotel, restaurants, nightclubs, retail stores, and entertainment. Therefore, by its design, the Sports and Entertainment District seeks to capture a majority of convention attendee spending, leaving little attendee spending for local businesses beyond the walls of the Sports and Entertainment District.

¹⁶ SMG, "Annual Report, The Moscone Center, 1995-1996 and 1996-1997," San Francisco, California, page 3

¹⁷ "Economic Impact Studies: Inaccurate, Misleading, and unnecessary", William J. Hunter, 1988

¹⁸ Economic Impact Study, Deloitte & Touche LLP for the Convention Liaison Council, 1994

One of the primary objectives of the Sports and Entertainment District is to provide a hotel and retail compliment to Staples Center and the LACC. Descriptions of the project from the Environmental Impact Report describes the synergy hoped to be created as follows:

*To establish the convention hotel as a focal point of the development within the Olympic Properties ...to provide hotel guests with an attractive and active entertainment/retail environment and establish the plaza as the means by which direct pedestrian linkages are established between the Project, Staples Center and the Convention Center.*¹⁹

The expected synergy between the proposed Sports and Entertainment District Project, Staples Center, and the LACC is clearly defined. The connection between the Project and the surrounding community is not as clearly defined however, and is vaguely described in terms of “pedestrian, vehicular, transit, and visual linkages.”²⁰

Case Studies

There is little evidence that suggests convention centers have significant economic impacts on adjacent areas. What economic impact has occurred is usually limited to restaurants and retail within three to four blocks of the convention center. According to the Sedway analysis (Attachment #9), the cities that have experienced the highest degree of successful downtown revitalization have a substantial residential development component. The local residents provide the consumer base that sustains economic activity, especially during times when the convention center is vacant. Examples include San Diego and San Francisco.

By comparison, cities with a relatively small residential downtown population near the convention center have had difficulty sustaining the revitalization of their downtowns. Examples include Dallas, New Orleans, and Los Angeles. Because convention attendees are the primary consumers, businesses can not survive when there is not a convention in town. Therefore, the areas surrounding these convention centers remain undeveloped.

A May 1995 study by Coopers and Lybrand prepared for the Massachusetts Convention Center Authority presented case studies on the development impact of convention centers and convention center hotels in a number of cities. This study is interesting because it compares actual results to initial estimates. The conclusions for each case are listed below, and indicate that a convention center typically does not provide an economic stimulus to it's surrounding area:

¹⁹ Los Angeles Sports and Entertainment District, EIR, page 35

²⁰ Los Angeles Sports and Entertainment District, EIR, page 36

McCormick Place, Chicago

Since the opening of McCormick Place in 1960, retail, restaurant, and residential development has not taken place in its vicinity. The McCormick Inn, which was developed adjacent to the convention center and relied on McCormick Place's business, was financially unsuccessful.

Georgia World Congress Center, Atlanta

Officials representing the City, GWCC, private industry and nearby hotels agree that the economics of the downtown area have been boosted by the development of the GWCC. However, the immediate vicinity of the convention center has seen no new development in hotel, restaurant and retail business resulting directly from the facility's development.

Dallas Convention Center

Over the 38 years that the Dallas Convention Center has been in operation, it has contributed positively to area hotels, retail and attractions. However, no new significant private development has occurred adjacent to the Dallas Center during this period.

Cobo Convention and Exposition Center, Detroit

Cobo Convention and Exposition Center was originally built in the heart of downtown Detroit. However, since its development, the path of growth in the central business district has shifted in an easterly direction, away from the facility. City finance, tourism, and hotel officials agree that Cobo Center has benefited the Detroit area as a whole, but has had little development impact on its immediate surroundings.

Los Angeles Convention Center

The expansion has helped sustain businesses already in place in the Los Angeles CBD, particularly during economic slow-downs, but have spawned no new development within two to three blocks of the LA Center. Center officials reason that trade show facilities are "inward-looking" buildings: attendees usually prefer to leave the area once their business inside the convention center has been accomplished...Since the Los Angeles Convention Center opened in 1971, it has had little commercial impact on the surrounding neighborhood. When an expansion was completed more than 20 years later, the facility generated only minimal commercial impact on its immediate surroundings. Although downtown Los Angeles commercial development is slowly expanding in the direction of the LA Center, it is not yet linked with the complex. The expansion of commercial development in the Los Angeles CBD appears to be driven more by the sprawl in downtown office space than by the LA Center.

George R. Brown Convention Center, Houston

Development of the George R. Brown Convention Center was anticipated to spur development of other major construction projects in the Houston CBD. However, because of the economic problems that hit Texas in the mid-1980's, none of this anticipated development occurred. As a result, the Houston Center sits in a relatively undeveloped sector of downtown, with virtually no support amenities nearby.

Sports Arenas As Economic Catalysts

Similar to convention centers, sports stadiums and arenas are often described as economic catalysts for cities hoping to revitalize their downtowns. Also, like the LACC, Staples Center is adjacent to the proposed Sports and Entertainment District Project, and will have a considerable impact on it. Therefore, it is useful to consider the economic impact of downtown sports facilities, such as Staples Center in Los Angeles, and facilities in other cities.

The construction of Staples Center in 1999 was predicted to be an economic catalyst to downtown Los Angeles:

The arena comes freighted with the hopes of civic leaders that it will revive downtown Los Angeles, which has been on life support for decades...What's in it for Los Angeles, besides a palace for sports and entertainment? 'This building is the beacon for many of the hopes and aspirations of the city as to the economic rejuvenation of our downtown area,' says Tim Leiweke, president of the Staples Center.²¹

But in addition to its aesthetic contributions, the facility's founding partners, city officials and downtown alliance groups are confident the arena will breathe new life into the downtown area. Not only do they believe the building will set off a trend of rejuvenation, they also are confident local restaurants, hotels and downtown businesses stand to benefit from the potential revenue Staples Center is expected to generate for the city. 'As to the economic impact, it's going to be exactly what we've always expected,' Leiweke said. 'There's no question, Staples Center is going to be a major contributor to the rejuvenation of the downtown area and all of the businesses here are going to reap the rewards of that.'²²

²¹ The Los Angeles Times, Special Issue: Taking Center Stage (Staples Center), T.J. Simmers, October 10, 1999

²² Amusement Business, Staples to 'boss' way into L.A., Jacqueline Fox, October 11, 1999

Staples Center will anchor the blighted south part of downtown around the existing Convention Center with activities scheduled some 300 nights a year.....Everyone agrees that Staples Center could be a catalytic project, but the question is exactly what it will catalyze. Will it encourage city building within the 30-acre development that links north to downtown, giving and drawing life in direct and indirect textured exchanges, or will it contain business and profits through an internalized urbanism that essentially plants a self-protective mall in the city like a gated community?

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In the almost three years since it's opening, there is little evidence that Staples Center has acted as a catalyst for new development projects in the area. While existing restaurants in the areas north of 9th St. notice increased business on evenings with an event at Staples Center, no new development activity has occurred south of 9th St.. In fact, for local residents, Staples Center has generated new problems that didn't exist before. A letter submitted in opposition to the proposed Sports and Entertainment District by Coalition LA during the environmental review process, a copy of which is attached as Attachment #7 describes these problems:

Our members, and other residents of the surrounding area, already suffer from the negative impact of the current operation of the Staples Center; including the elimination of affordable housing, dramatically increased traffic and associated noise and air pollution; a marked rise in crime and vandalism (my fiancée was personally witness to a shooting, less than three feet away from her at a recent event at Staples); and decreased pedestrian and public safety. While the rest of the region may benefit from the Staples Center operations, the residents who live and work closest to Staples bear the heaviest environmental and economic burdens.

A tour of the area adjacent to Staples Center reveals little or no new development. The recent opening of the Palm Restaurant at the corner of Flower St. and 11th St., appears to be the only development in the areas south of 9th St. and east of Staples Center. The photograph below of the Oviatt Hotel, a dilapidated single room occupancy hotel at the corner of Flower Street and Pico Blvd., is less than one block from the LACC. Additional photographs of the areas adjacent to Staples Center are included in Attachment #8.



It is not surprising that Staples Center has not been an economic catalyst for the areas adjacent to it. Numerous studies have found little or no economic benefit from the construction of sports arenas and stadiums. In the 1997 book Sports, Jobs, and Taxes: The Economic Impact of Sports Teams and Stadiums, co-authors Andrew Zimbalist and Roger Noll describe the impact of stadium subsidies:

A new sports facility has an extremely small (perhaps even negative) effect on overall economic activity and employment. No recent facility appears to have earned anything approaching a reasonable return on investment. No recent facility has been self-financing in terms of its impact on net tax revenues. Regardless of whether the unit of analysis is a local neighborhood, a city, or an entire metropolitan area, the economic benefits of sports facilities are de minimus.

Reasons for the failure of sports facilities to produce a positive economic impact include:

- The failure to account for the opportunity cost of the proposed project. In other words, the use of the subsidy on alternative projects such as a new park, community college, small business incentives, hiring of more police, firefighters, or teachers could be of more value to the community.
- Few attendees of professional sporting events and concerts are from out-of-town.
- As consumers typically have a budget for entertainment expenses, most of the money spent at a sports stadium or arena would have been spent at some other entertainment venue (movie, nightclub, etc). Therefore, the project does not attract new spending to the area, but merely shifts it from one entertainment venue to another.
- A majority of the stadium subsidy, and subsequent economic windfall goes directly to the team owners, leaving little spillover to the local community.
- An overestimation of job creation. And the permanent jobs that are created by the project are typically part-time, seasonal, low-paying concessionaire jobs.

Many of these jobs are also a shift of entertainment and restaurant jobs from competing service sector businesses.

Modern sports facilities such as Staples Center are designed and built in a way in that is unlikely to promote economic development of the local community. Joseph Bast, in a Heartland Policy Study²⁴ described this issue:

The transportation and parking needs of a modern facility require acres of unattractive parking lots and close proximity to a four- or six-lane expressway. In order to capture as much revenue from visiting fans as possible, these stadiums are built like self-contained fortresses, with restaurants, gift shops, hotel rooms, and even night clubs all within their walls. As a result, few fans venture far from the stadiums after a game before heading home.

Some sports facilities, particularly older baseball-only stadiums such as Fenway Park in Boston and Wrigley Field in Chicago, are physically embedded in well-established business districts and residential neighborhoods. It is plausible, in these cases, that a complimentary relationship exists between the stadium and nearby bars and restaurants. Much less plausible, however, is the claim that this relationship is characteristic of newer and larger facilities, or that it extends much more than a few blocks from even an old and beloved stadium's front door.

The City of Baltimore and the Inner Harbor is often cited as the model for a successful entertainment-based development strategy. State and local officials invested hundreds of millions of public dollars in entertainment facilities (Orioles Park at Camden Yards, Ravens Stadium, Inner Harbor pavilions, and the National Aquarium). The impact of visitors to these attractions has contributed little to the economic health of Baltimore. As Washington Post writer Rudolph Pyatt noted, "economic spin-offs from Orioles Park have yet to reach blighted communities just a few blocks away."²⁵ Bruce Hamilton and Peter Kahn²⁶ have calculated that Camden Yards was responsible for 550 jobs in the Baltimore area, and the jobs and tax imports, produce an annual economic benefit of \$3 million. Unfortunately, the annual cost of debt and depreciation on the stadium to Maryland taxpayers is \$14 million.

Environmental Issues

²⁴ Heartland Policy Study, Sports Stadium Madness: Why It Started, How to Stop It, Joseph Bast, Feb. 23, 1998

²⁵ The Washington Post, Sports Moguls Strike Out With Virginia's Gov. Allen, Rudolph Pyatt, April 29, 1996

²⁶ Sports, Jobs & Taxes: The Economic Impact of Sports Teams and Stadiums, Roger Noll and Andrew Zimbalist, 1997, pages 245-281

Traffic, circulation, and parking are a major concern to local residents. The Draft Environmental Impact Report (EIR) for the Sports and Entertainment District Project notes that there will be a Saturday demand for 7,363 on-site parking spaces, and on-site supply for only 5,310 spaces. Also, a new 2,200 space-parking garage will be constructed for Staples Center. However, it is unclear how many current surface parking spaces will be lost to the new project, and how those who currently use those spaces for events at the 20,000-seat Staples Center will be accommodated.

The Draft EIR also lists unavoidable significant adverse impacts on circulation. Street segments with no feasible mitigation include the following²⁷:

Figueroa St. between 8th & 9th St.
Flower St. between Pico & Venice Blvd.
Grand Ave. between 2nd & 3rd St.
Alameda St. between Temple and 1st St.
3rd St. between Flower & Hill St.
3rd St. between San Pedro & Central Ave.
3rd St. between Los Angeles & Wall St.
4th St. between Spring & Main St.
4th St. between San Pedro & Crocker St.
4th St. between Alameda & Hewitt St.
4th St. between Hewitt & Merrick St.
5th St. between Flower & Grand Ave.

The following freeway segments would have a significant impact from the proposed Sports and Entertainment District Project²⁸:

I-5 Freeway at Ferris Av
I-5 Freeway at Stadium Wy
I-10 Freeway at Budlong Av
I-10 Freeway at East LA City Limit
SR-60 Freeway E/O Indiana St.
US-101 Freeway N/O Vignes St.
US-101 Freeway S/O Santa Monica Bl
I-110 Freeway at Slauson Av
SR-110 Freeway S/O US-101
SR-110 at Alpine St

No mitigation measures are available to reduce the unavoidable significant impacts on the freeways. A comment letter was submitted from the California Department of Transportation during the Draft EIR process regarding this issue. In a letter dated February 26 2001, Stephen J. Buswell, Program Manager, wrote, "Interstate 10 and the

²⁷ City Center Redevelopment Project, Draft EIR, page 4.5-18

²⁸ City Center Redevelopment Project, Draft EIR, page 4.5-21

110 Freeway mainlines and ramps in this area are operating at or near capacity for most of the day. To enable us to more precisely determine the impacts of this project, further study is needed. Please provide a capacity analysis of the AM peak-hour, the PM peak-hour, and daily total traffic for existing and build-out.”

The lack of local parks is also a concern for local residents. The City of Los Angeles Department of Recreation and Parks has a planning standard of four acres of parks for every 1,000 residents. The proposed Sports and Entertainment District Project includes 800 residential units, or 2,272 new residents. No new park areas are included for local residents.

Status of Downtown Los Angeles Development

The Agency suggests the proposed Sports and Entertainment District Project is necessary for the effective redevelopment of the entire project area, thus claiming the redevelopment of downtown Los Angeles somehow depends on this project. If this were true, one would expect the current status of Downtown Los Angeles development projects to be languishing. However, it appears efforts to revitalize downtown Los Angeles are well underway, with a wide variety of projects currently scheduled including apartment, residential loft, hotel, restaurant, supermarket, retail, and office projects. Downtown Los Angeles currently has approximately 8,500 residential units. With new residential projects in the Historic Core and elsewhere, that number is expected to more than double to 19,000 residents by 2004.²⁹

A recent article in the Los Angeles Downtown News described Downtown development in the year 2001:

*The discourse about how to revitalize Downtown was infused with new vigor, as experts predicted a doubling of the residential market over the next four years. Long-awaited amenities steadily began to follow, signaling a new life for the recovering metropolis.*³⁰

The Agency’s Preliminary Report reflects this optimism for Downtown growth by using a healthy annual growth rate on assessed values of 4 percent in the project area over the projected life of the project. In addition, \$2.23 billion of assessed value for new development is added. According to published reports, the cost of the new Sports and Entertainment District will be approximately \$1 billion. Therefore, the Agency estimates that \$1.23 billion in other projects will take place in the project area.

The Agency may claim that the \$1.23 billion in other projects is dependent on the Sports and Entertainment District Project. This report finds no support for that proposition.

²⁹ Los Angeles Downtown News, December, 2001

³⁰ Los Angeles Downtown News, A Look at Downtown in 2001, Kathryn Maese, January 4, 2002

And, the Downtown News did not indicate that the development projects currently scheduled for Downtown Los Angeles were in any way dependent on the Sports and Entertainment District Project.

The Urban Landscape & Successful Revitalization

In a June 2000 interview³¹, Los Angeles Visitors and Convention Bureau Executive Vice President Michael Collins described the rebirth of Downtown Los Angeles as a destination:

I was not being flip when I said that to succeed a destination has to be fun and pretty. For example, take any city that you love, and examine what makes that city loveable. Now extract visitors from that city. I would submit that most of those lovable qualities won't exist-they're either initiated or sustained by the strangers and visitors.

Few urban planners share the idea that visitors initiate a city's character. In the book Cities Back from the Edge: New Life for Downtown, Roberta Gratz and Norman Mintz demonstrate that cities with successful urban revitalization have done so with multiple, small-scale projects which over time produce sidewalk bustle, complex intermingling, a diversity of people and buildings, and an expansion of the local economy. The excitement generated by the local scene eventually becomes appealing to visitors. Examples of thriving downtown rebirths include Miami Beach, New York's SoHo, Denver's Lower Downtown, San Francisco's South of Market, Pasadena's Colorado Boulevard, and San Diego's Gaslamp Quarter.

The Gaslamp Quarter is typical of these success stories. Long the home of dilapidated buildings, crime, and adult-oriented businesses, the Gaslamp had been written off as an urban wasteland. Then, in the mid 1970's, recognizing its central location, historic buildings and inexpensive rents, urban pioneers began to move into the area. Over the next twenty-five years, a gradual transformation occurred. A key component of the transformation was the desire to retain the character of the nineteenth century buildings.

Today, the sixteen-block Gaslamp Quarter stands as one of the premier Downtown historic districts in the country. Described as the "New Orleans of the West," it is known as a lively, twenty-four hour entertainment district which sustains approximately 100 restaurants, cafes, bars, and entertainment venues. The Gaslamp is also a good place to do business, with establishments ranging from urban furnishings to fashion. The Gaslamp currently has approximately 75 shops and galleries, and another 30 service-related businesses.

³¹ The Planning Report, Envisioning L.A.'s Downtown as a Destination Place, June 2000

Gratz and Mintz also discuss cities that have not nurtured local economies, but have instead subsidized the construction of large, expensive tourist attractions. The results of this building can be seen in cities such as Charlotte, Cleveland, Indianapolis, and Atlanta, where little economic revitalization has occurred outside the walls of the massive projects. According to Gratz and Mintz, the collection of visitor attractions has destroyed the complex urban fabric of these cities.

In discussing whether or not the City of Buffalo should build a new downtown convention center, urban planner Jane Jacobs commented³²:

I think the idea of making a kind of compound for the out-of-towners, the convention people, and plunking it right in the middle of Buffalo, is terrible. If they get to like Buffalo, if they enjoy Buffalo, it'll be because Buffalo is a place that its own people like, and its own people enjoy. That's true of any city. People go to conventions in New York, because they can go to the theater and all those amazing restaurants, and find anything they want in a toy store, and so on. But that wasn't made for out-of-towners; out-of-towners share in it. The same could be said of Paris, or any great destination. The basis is the local use, and then the gravy is the visitors' use.

Recent urban research, the County's Sedway Report, and examples from other cities indicate that the proposed Sports and Entertainment District Project will not result in significant new economic impacts on the City Center Project Area. In addition, Downtown Los Angeles is currently experiencing a significant turnaround, with multiple projects scheduled in the Project Area. The residential projects especially are contributing to the development of 'critical mass' that is defining the new Downtown Los Angeles. Therefore, the Sports and Entertainment District Project is not necessary for the effective redevelopment of Downtown Los Angeles.

Purpose of Inclusion: Obtaining Tax Increment

In its 1977 ruling in favor of the plaintiff in *Regus v. City of Baldwin Park*³³, the Second Appellate District held that there was no substantial evidence showing blight in the area to be redeveloped but that there was evidence showing that the defendant's key motivation for the project was to capture tax revenues from new construction.

The 1999 PKF Study compares the projected yields of a new convention center hotel income to the development costs for construction. PKF estimates a shortfall of \$67-\$115 million, concluding that a public subsidy of this amount would be required to

³² Buffalo ArtVoice, The Convention Follies, Part 5: A Conversation with Jane Jacobs, Hank Bromley, July 27, 2000

³³ *Bertha Regus et al., v. City of Baldwin Park et al.* (1977) 70 Cal. App. 3d 968

complete the project. The need for a public subsidy for a new convention center hotel has been widely reported:

'There is a reason no one has built a hotel – this is not an easy project to get done,' says Mr. Leiweke. (Staples Center President) ... Mr. Leiweke says the hotel could open in late 2003 or 2004, though many issues still need to be worked out. These include obtaining a subsidy from city taxpayers, he says, though he acknowledges that Angelenos are loath to subsidize private ventures. 'Some subsidy is going to be an integral part of the hotel, argues Mr. Leiweke. 'You need the cooperation of the city.'³⁴

In June, Ted Tanner, senior vice president of real estate for L.A. Arena Land Co., told the Daily News that the deal 'won't happen' without the subsidy. 'The economics just won't allow it to happen.'³⁵

But Leiweke has insisted that the hotel was a big 'if' in previous interviews with the media. 'Our attitude is that if the City Council doesn't want public subsidies involved in the hotel, then it won't get built and we're okay with that. We'll probably make more money on parking as we will on the hotel.'³⁶

But Staples officials say the high-rise hotel is not feasible without public help. 'It is usually an economic necessity to have some economic participation in order to make those kinds of projects pencil out,' Leiweke said.'³⁷

It appears the developer of the Sports and Entertainment District Project will proceed with its plans for the construction of 1.1 million square feet of retail/entertainment/restaurant uses, 300,000 square feet of office structures, and large parking garage, regardless of the convention center hotel project. Therefore, the inclusion of this project in a new redevelopment project would represent a significant diversion of tax increment from the County.

Furthermore, by identifying the tax increment produced by the inclusion of the Sports and Entertainment District Project as a source of funds for another project, it appears the purpose of its inclusion is for the purpose of obtaining tax increment. On September 4 2001, the Los Angeles City Council relative to the approval of the Sports and Entertainment District Specific Plan:

³⁴ Wall Street Journal, L.A. May See New Hotel Downtown, Shirley Leung, Jan. 19, 2000

³⁵ Los Angeles Daily News, 14 Suckers Ready to Take Bet on Staples, Chris Weinkopf, Sept. 9, 2001

³⁶ Los Angeles Downtown News, Developing Downtown, Kathryn Maese, Nov. 29, 2001

³⁷ Los Angeles Times, Plan for an L.A. Times Square to Get Key Airing, Tina Daunt, Sept. 3, 2001

Direct the Chief Legislative Analyst and the City Administrative Officer to report relative to the feasibility and impact of dedicating a percentage of the tax increment of the entire Los Angeles Sports and Entertainment District after the deduction of maintenance costs as a dedicated funding source for the City's Housing Trust Fund.³⁸

Financing Alternatives

If the Agency found that the construction of the Sports and Entertainment District Project is necessary for the redevelopment of Downtown Los Angeles, a claim the County disputes, and that the project can not be accomplished without a subsidy, then a study of financing alternatives should be completed in order to determine the most equitable and effective form of subsidy. There are numerous financing alternatives currently available for the construction of convention center hotels. An article in a SAG newsletter³⁹, describes recent trends in convention center hotel financing:

Another form of enticing economic development is through the use of tax rebates. Tax rebates may be in the form of income, sales, or property but the most common for hotels is the occupancy tax. In Houston and Tampa, the city rebates the occupancy tax paid by the hotel back to the hotel. In Tampa's case, the rebate is also guaranteed by the city's full faith and credit. This approach is a good economic development tool because the new project pays for its own subsidy. This differs from a subsidy provided by non-related public sector revenues such as the general property tax.

Another trend in hotel financing is for the city to utilize a non-profit corporation (NPC) to finance the project. In this alternative, the NPC would finance and own the hotel. The advantages of an NPC include the use of tax-exempt bonds, the elimination of cash subsidies to a private developer, a return on the city's investment, and readily available capital. The Cities of Chicago and Houston have used the NPC mechanism to finance convention center hotel projects.

According to a summary of actual hotel convention center hotel deals, as reported in a SAG Newsletter⁴⁰, of nine hotels (Ft. Lauderdale Crowne Plaza, Nashville Hotel, Charlotte Westin, Phoenix Doubletree Suites, Miami Beach Crown Plaza, Tampa Marriott, Tinley Park Holiday Inn, Myrtle Beach Hilton, Kansas City Hilton), only two used Tax Increment Financing as it's primary source of public contribution. The Agency does not provide a comparison of financing alternatives, and recommends tax increment financing as the source of the public subsidy for the convention center hotel

³⁸ City Council records, September 4 2001

³⁹ Strategic Advisory Group LLC, Hotel Public-Private Partnership Newsletter Vol. 1

⁴⁰ Strategic Advisory Group LLC, Hotel Public-Private Partnership Newsletter

project. The following quote may explain the City's reluctance to propose an alternative to tax increment financing:

*As the Los Angeles City Council prepares next week to debate the proposed \$1 billion expansion of the area around Staples Center, Mayor James Hahn on Friday threw his support behind the project – as long as no public money is involved. ... Hahn said he would fight any effort to use public money for the project. 'I believe the project should pay its own way,' Hahn said. 'Funding should be sought from the private and commercial sectors, not from the taxpayers.'*⁴¹

The County notes that despite Mayor Hahn's statement, the Agency is proposing to use public money, in the form of tax increment, to subsidize construction of the convention center hotel.

On June 28, 2000 the Los Angeles City Council authorized the hiring of an independent hotel feasibility consultant. The consultant was to analyze the manner in which other cities throughout the nation have financed convention center hotel projects. The County would be interested in reviewing that study, and assumes that it would also indicate viable financing alternatives to the use of tax increment.

The Agency, in its feasibility studies, has carefully documented the need for a subsidy, but little analysis is included to demonstrate the economic benefits to the entire project area. Therefore, the logical conclusion is that the inclusion of the parcels in the redevelopment project area is primarily driven by the need to fund the public subsidy of the convention center hotel.

⁴¹ Los Angeles Daily News, Hahn Supports Staples Center-Area Expansion Project, Rick Orlov, Sept. 1, 2001